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November 9, 1977

Mr. Herbert E. Hetu
Assistant for Public Affairs
Central Intelligence Agency
Washington, D. C. 20505

Dear Herb:

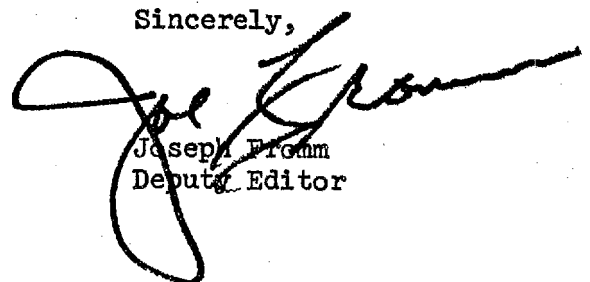
Here is the edited version of our background session at the Agency, which we are planning provisionally to publish in the magazine appearing Monday, November 21.

It was necessary, obviously, to cut drastically -- we had enough for 15 pages -- but I have striven throughout to preserve not only the language of the analysts but the nuances of the points they were making.

I would be most grateful if we could have this back with any corrections sometime Monday to allow ample time for layouts and art work. We will arrange to pick it up if you will let me know when it is ready.

Again, many thanks for your help in arranging this project. We feel that the result is really most worthwhile and will provide U.S. News & World Report readers with an exceptional insight into world issues that concern them.

Sincerely,



Joseph Fromm
Deputy Editor

JF:l
Enclosure

Mr. Hetu,

One copy of the attached was delivered
to Mr. Bowie's office yesterday afternoon.

CIA INTERVIEW

U.S. NEWS & WORLD REPORT

Washington, D.C.
October 18, 1977

A quick Israeli victory in another Mideast war. . . . A
crunch in Russia in the early '80s. . . . Pressure on oil
supplies if Mideast peace negotiations falter. . . .

These are the among the principal conclusions that emerge
from an unprecedented two-hour interview with ^{a group of} the Central
Intelligence Agency's top analysts by a team of U.S. News &
World Report editors. For the first time in its 30-year
history, the Agency agreed to allow a battery of its
intelligence specialists to provide an on-the-record briefing
on the most critical issues facing the U.S. around the world
today.

The interview, arranged at the magazine's initiative, took
place in the CIA headquarters in Langley, Va., outside
Washington.

In the transcript that follows, the Agency's intelligence
analysts answer a wide range of questions of direct concern
to Americans.

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Where do you see the Soviet Union heading now--into a crisis or a time of greater stability?

If our projections are right and if actuarial tables can be relied upon, two developments are likely to coincide in the Soviet Union in the first half of the 1980s: an energy and economic crunch and a fairly large-scale renovation of leadership.

You now have a kind of gold-watch leadership--a leadership at the end of its tenure. It has not had a record distinguished by innovation in domestic policy. And it is not one that you would expect to produce radical reforms to ameliorate acute problems shaping up in five or six years.

We discern no evidence that the Soviets are beginning to undertake the costly measures--political and economic--that are needed to cope with the crunch we see coming up in the early '80s--for example, in energy. Now, it may be that the leadership has long been aware of what lies ahead and has a certain confidence that the country can muddle through--that

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they will be able to get through this rough period ahead with measures that are not highly disruptive.

Another possibility is that we see things that they do not yet see clearly. If that is true, then there is a much greater potential for radical changes in Soviet policy. That is why we are watching as carefully as we can for evidence of how the Soviets perceive their economic situation in the early '80s. It is terribly important in analyzing what to expect when the crunch comes.

A worst-case scenario goes like this: The leadership in power today is unwilling or unable to take the long-lead-time measures to cope with the economic situation that we see coming up in the early '80s. Then the succession occurs with none of the necessary hard decisions having been made.

The succession brings into power a leadership that may have a better appreciation of the problem but is even less capable of dealing with it because it is preoccupied for five years sorting itself out and establishing who has the real
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clout. In that situation, you could expect a very sharp struggle over the allocation of resources and immobilism when it comes to introducing major reforms in the Soviet system to cope with their economic problems. That is the worst case from the Soviet viewpoint.

What's the basis of your projection of an economic crunch in Russia in the early '80s?

Already economic growth is slowing down markedly. In the '60s Soviet growth averaged 5 per cent if you use Western concepts of national income. In the first half of the '70s, growth averaged 4.9 per cent and this year we expect less than 3 1/2 per cent. We expect the slowdown to continue into the '80s.

In the past, the problem could be attributed to agriculture, which caused cyclical swings. The leadership could blame the weather. You recall how, when there was a bad harvest, Khrushchev complained that "God has done it to us again." But now a lot of underlying, long-range trends are
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catching up with the Soviets that have nothing to do with weather, climate or agriculture.

What are these adverse long-range trends?

One of the most serious is in energy. The CIA has made a prediction that Soviet oil production will start declining between now and the early 1980s. Today the Soviet Union is a net exporter, delivering 1.1 million barrels daily to Eastern Europe--at well below the world market price--and another 300,000 barrels to other Communist countries. Exports to Eastern Europe are supposed to increase to 1.6 million barrels by 1980.

If you take our middle projection of Soviet oil production between now and 1985--neither the most optimistic nor the most pessimistic--then Eastern Europe and the Soviet Union together will be in the market for 2.7 million barrels daily.

Aside from footing the greatly increased bill for oil imports on that scale, they have three options. One is to mount a typical, all-out Bolshevik-fashion campaign, which
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might enable them to achieve 5 per cent conservation while maintaining economic growth at the assumed rate of 3 to 4 per cent. A second option is to let the economic growth rate drop to 2 1/2 or even 2 per cent while pushing for coal, nuclear energy and other oil substitutes.

The most drastic option is for the Soviets simply to tell the East Europeans, ``You have to go your own way. We will have to reduce our oil exports to you from the 1.6 million barrels that we have promised to 800,000.'' Now you're talking about an increased oil bill for Eastern Europe of 6 billion to 7 billion dollars a year in terms of probable 1983 oil prices. Those are the kinds of numbers that would have at least a transitory political shock on Eastern Europe. You're right when you suggest that this could be potentially dangerous.

What other factors will contribute to the economic crunch in the early '80s?

The slowdown in the growth of the Soviet labor force is
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shaping up as another serious drag on the economy. To patch out the labor force a bit, you might very well see pressure to reduce the size of the armed forces, which number about 4 1/2 million men--more than double the size of our forces. One possibility would be a reduction to 3 1/2 million by shortening the time of compulsory military service. These kids would provide a very useful addition to the labor force, as they would be much more sophisticated in an industrial sense than their cohorts who have not been exposed to the rigors and discipline of military life.

Will the economic squeeze force a cutback in Soviet defense spending?

Over the next four to five years we don't see anything that is going to change the trend of recent years--an annual increase of 4 or 5 per cent in defense-related outlays in real terms and 11 to 13 per cent of the gross national product devoted to military programs. Specifically we see no reduction in the allocation of resources to strategic

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programs--offensive and defensive--which actually account for a relatively small percentage of the total.

But there is this caveat: It's very difficult to anticipate what happens when the crunch comes and the leadership feels it can't maintain that pace. When the leadership fully perceives its problems, which we think they increasingly will do, there surely will be friction among the claimants of resources. To judge how they will respond we would have to have a black box in the Politburo meeting room on Thursday morning--but we don't.

Will these pressures make the Soviets more willing to pay a price for arms agreements with the U.S.?

From an economic as well as political and military standpoint, the ability to foreclose competition with the U.S. in future weapons systems would be attractive. But it's important to keep this in perspective. Even the most far-reaching proposals in the Strategic Arms Limitation Talks do not offer any major incremental savings in the Soviet defense
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budget--certainly not on a scale that would relieve or solve the problems that we have been discussing.

Looking at Soviet-American relations over all: Is detente with the U.S. a durable feature of Moscow's foreign policy or just a temporary expedient to gain an advantage?

This point should be made first: The Soviets see what they regard as the correlation of forces as moving perceptibly in their favor since World War II. At the same time, they traditionally have been concerned about the danger of pushing the U.S. and the West generally over the brink--the danger that cumulative Soviet successes could have a galvanizing or provocative effect on the behavior of the West. The Soviets still have a great deal of respect and concern about the potential of the United States for engaging them in a competition that would be less comfortable for them than the one that they've experienced over the past decade or so. They regard the detente mechanism as a way of preventing bumps which could lead to unwanted or desired confrontations or

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clashes. They see the relationship as a way of controlling the danger of a lashing-out in the West as a reaction to the gradual decline in U.S. power.

Does the Soviets' pursuit of a detente relationship with America cause them to exercise greater restraint or to take greater risks?

They always have to make a very difficult judgment of what the traffic will bear in any given situation. Their decision depends on how they read probable U.S. behavior. Whether they were pursuing an active policy of detente with the United States or not, they would be concerned to avoid a high-level military confrontation with the U.S.

In the "third world," their policy largely reacts to circumstances, opportunities, risks and dangers which are not of their making. If you look at the record of the past 10 years or so, there isn't a great deal of evidence that they have desisted from seizing opportunities that fortune threw in their way.

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Who gets the most out of detente--the Soviets or the U.S.?

We're not making a judgment as to how that nets out. It's perfectly possible, theoretically and actually, for both sides to derive advantages which give them an interest in sustaining the detente relationship even though they have different objectives.

What about Western credits--isn't that of great importance to the Communist states?

It's quite important to Eastern Europe but less important to the Soviet Union, given the magnitude of its trade. Eastern Europe's hard-currency debt is 24 billion dollars. The Soviet debt is now 16 billion. Both have been rising rapidly--at an average annual rate of about 5 billion since 1973. The Poles and the East Germans base their policy of economic expansion to a considerable extent on access to Western technology and they are particularly concerned about prospects for further credits.

Western bankers also are concerned about the sharp
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increase in the debt that Eastern Europe and the Soviets have amassed in the past few years. The West German, French and British bankers are especially uneasy and are bringing increasing pressure on their governments to provide guaranteed credits. But this doesn't apply so much to New York bankers since they don't get that much of the action.

Will the Russians bail out the Eastern Europeans if the debt burden gets too great?

That's the conventional wisdom in the Western banking community. Bankers always bring it up when you talk to them. They seem unmoved when you point out that the Soviets are in trouble, too. They're confident that the Soviets politically can't allow Bulgaria to go down the tubes.

The fact is that in the Eastern Europe-Moscow economic relationship the Eastern Europeans always ask for more and they get less. For example, this year the Eastern Europeans are in trouble again in agriculture because of stagnation. They would dearly love to get hold of grain from the Soviets.
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The Soviets are very hard-nosed with them.

A Polish Ambassador said publicly that ``the best the Soviets are going to do for us is 1 to 1 1/2 million tons. We need 6 million tons minimum and perhaps 7 million tons of grain.'' So the Poles are coming to Washington hat in hand asking for Commodity Credit Corporation credits. The Russians just won't kick in. That's just one anecdote. We just see the tip of the iceberg in this area.

In Western Europe, what is your assessment of Moscow's attitude toward Euro-Communism? Do the Soviets see this movement as an asset or a liability?

It's a real dilemma for them. They're pulled in several directions simultaneously, and that's not a sham.

They welcome in a general way a leftist tendency in Western Europe because it has some potential long-term payoffs for the Soviets. But, on the other hand, they are dealing with heterodox Communist parties and the degree of control that they will be able to exercise over these parties
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is uncertain at best.

Also uncertain is the impact on foreign policy--say, in France--of a left coalition running French affairs. After all, the Soviets have done fairly well in dealing with anti-Communist French Governments since De Gaulle. There are rumors that they would prefer to have Giscard d'Estaing returned to power rather than see a victory for the Union of the Left, including the Communists. That might have an additional side benefit of teaching the French Communist Party a lesson about defying Moscow.

Furthermore, the Soviets obviously are impressed by the fact that Euro-Communism has certain infectious potential for Eastern Europe and perhaps even for the Soviet Union in the long run. In other words, the Soviets are truly and genuinely ambivalent about Euro-Communism.

Turning to the Mideast: How do you assess the prospects for another Arab-Israel war?

Basically the military balance is very much in Israel's
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favor and likely to remain so at least over the next five years. This is due to a combination of two factors.

First is the tremendous improvement in Israel's military capabilities since the 1973 war, partly as a result of the receipt of massive amounts of U.S. equipment, including sophisticated weapons. In addition, Israel has expanded the size of her active-duty forces and improved the efficiency of the reserve system. On top of that, of course, is the fact that Israel enjoys certain geographic advantages which enhance her defensive posture.

By contrast, the principal Arab states have had a very uneven record in terms of improvement in their military capabilities.

For example, Egypt's capability is relatively less than in '73 primarily because of the breach in her relationship with the Soviet Union. Ninety per cent of the equipment of the Egyptian armed forces still is Soviet.

In the case of Syria, the involvement in Lebanon has had a
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major impact on her military capabilities. Syria's posture in the Golan Heights is the weakest since '73 because about a quarter of her combat-maneuver brigades are committed to Lebanon.

Saudi Arabia has never been a major military factor nor has Jordan, for that matter. Iraq is the one Arab state that has made major--indeed, impressive--improvements in military capabilities since '73. The forces that Iraq could dispatch to the Golan Heights in the event of renewed hostilities would be significantly larger than they were in the last war but still not enough to reverse Israeli military superiority.

Libya, of course, has been busily accumulating huge stocks of equipment, but basically these are going into storage. Practical logistical difficulties make it doubtful that those stocks could be made available to the confrontation states in a timely fashion. Also, Libya's dispute with Egypt has reduced the likelihood, in the near term at least, that she would be much disposed to assist the Egyptians.

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It would be a mistake to assume that all of this means that the Arabs have no military options. As in '73, they have the capability to initiate a new war in the hope that they would impose heavy losses on Israel and that pressures of the international community would bring the hostilities to a quick end before the Arabs were defeated. They would hope that they would achieve benefits in the ensuing negotiating process.

In this situation, what are the chances of Israel launching a pre-emptive war?

The Israelis are much more alert than ever before due to the effect of the military equipment we have provided and the fact that they were taken by surprise in '73. It's very unlikely that they will be surprised again. Therefore, the chances for a pre-emptive Israeli attack are real if they see themselves threatened by the Arabs or if they believe that the Arabs are ready to go to war.

Is either side in this conflict likely to resort to
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nuclear war in the foreseeable future?

Given the Israelis' current military capability, there should be no impulse or need for them to move to the use of nuclear weapons. They should be able to win the next war in a relatively short period of time--although in the end that will depend on the fortunes of battle. If for some reason the Israelis were not achieving as quick or clean a victory as they would like, the pressure on them would not be so much to use nuclear weapons. Rather they would have to decide whether to halt offensive action and settle into a defensive posture or whether to continue to pursue the Arab armies, despite the losses, in the hopes of defeating them thoroughly and ending the threat for a considerable period in the future.

And the Arabs?

We don't see any of the Arab states having a nuclear capability during the coming five years. Beyond that, the possibility exists that one or a number of them might have the technical capability to develop nuclear weapons.

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How susceptible is Israel to pressure from the U.S.?

In terms of economic pressures, the likely Israeli response would be negative. In terms of military equipment, we are their major supplier, in particular, of sophisticated weapons which give them their edge over the Arabs. If that source of supply were to dry up, there would be few options for Israel.

But it is misleading to pose the question in terms of overt pressure being brought to bear on Israel. The fact is that any Israeli leader would have to look down the road and ask whether the course he was pursuing was going to alienate the United States, whether as a result of his policy he could count on the United States as a continuing supplier of weapons, economic support and diplomatic support. Trying to determine how this will influence Israel's attitude toward negotiations and a settlement with the Arabs is a much more difficult computation.

On the Arab side, will they use the oil weapon to
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influence negotiations with Israel?

The Saudis are the key to this question, and we should understand that they are under dual pressures. On the one hand, they have always been and will continue to be reluctant to antagonize the U.S. That is so in part out of fear of retaliation but also out of fear of deterioration in their relationship with this country--military, economic and political.

On the other hand, if the Geneva Conference fails to start by the end of the year or shortly thereafter, or if negotiations were to break down, other pressures would come to bear forcefully on the Saudis. They would be influenced by the fact that they, like any other Arabs, get angry and frustrated when there is no progress. More importantly, the Saudis would come under severe pressure from other Arabs to do something if negotiations broke down--to use their oil and financial resources as a political weapon. Simply in order to save their own hides they would have to consider use of those
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weapons.

We don't want to be pinned down to specific scenarios. But take a situation where negotiations broke down but there is no war and not even consideration of a war. There are several things the Saudis could do short of overt use of the oil weapon. They could consider a selective embargo on purchases of U.S. goods as a signal to us--even though that would entail risks to their own military program and their economic-development program.

They could also play a less moderating role in influencing OPEC decisions on oil-price increases. So far they have been the principal price moderator in OPEC. But in the event of slow or inadequate progress on Geneva, they may feel compelled to relax whatever pressure they might be planning to bring to bear on OPEC to restrain price hikes.

It is not just a matter of the Saudis being pushed by other Arabs. All along they have been concerned about protecting themselves against radicalism and Soviet influence
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in the area. They see both of these as a direct threat to their regime. The Saudis will have to consider whether the failure to move toward an Arab-Israeli settlement increases radicalism or Soviet influence. If they decided that this was the case, then you should not write off their use of any weapons at their disposal to change the situation--primarily by using the oil weapon to pressure the United States to move toward a settlement.

In the Far East: How do you assess the possibility that the new leadership in China will switch foreign policy and patch up the quarrel with the Soviet Union?

The Chinese may be in the process of making certain technical adjustments with the death of Mao Tse-tung, who was very committed to a continuous anti-Soviet position, and with the elimination of the ``Gang of Four,`` who were ideological watchdogs of any tendency to drift toward the Soviet Union or the United States. But we see no amelioration of the Sino-Soviet conflict when it comes to the larger issues, such as
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the territorial questions and border confrontations. We don't find anybody who sees a reconciliation in the offing.

Will the the Chinese be pushed closer to the Soviets by failure of the U.S. to resolve the Taiwan issue and normalize relations with Peking?

That question should be considered in terms of the Chinese perception of the United States. To them, our position in the world as an offset to the Soviet Union is much more important than their interpretation of movement on the Taiwan issue. One must distinguish the difference between Chinese posturing and reality. We are dealing with a shrewder, tougher, more innovative negotiator in Peking than before. The Chinese are going to look at practical adjustments in relations with the Soviet Union, and, at the same time, they are more inclined to play hardball on Taiwan. They will make the political costs slightly higher for the U.S. They will continue to extend their influence and power in the Taiwan straits as they have been doing since 1974--gradually, carefully
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logically.

The Chinese are moving to make their relationship with the United States less important by cultivating other relationships. They see the connection with Japan as very important, particularly as a source of technology. Also, they are seeking stronger ties with West Germany as another offset.

You see, after the 1969 border confrontation with the Soviets, the Chinese had nowhere else to turn but to the United States. Now they are trying to reduce their reliance on the U.S. by employing much more skill, much more open-mindedness and much more pragmatism in dealing with the Soviet problem.

Finally--Africa: Are we moving into a dangerous superpower rivalry there?

The Soviets seem to believe that they are in a situation in Africa where they do not need to take bold, new initiatives to gain control of events. They see the ball in
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our court--particularly in South Africa, with a high probability of the thing unravelling there. The Soviets already have established a sufficient reputation as a power that is ready to pick up the pieces. They count on the demonstration effect of their role in Angola.

In South Africa, they're waiting for the West to burn itself out. From their perspective the odds aren't bad. Their assessment seems to be that our chances don't look very good and so nothing very dramatic is required of them.

In the Horn, the Soviets are in a dilemma. They are banking on a settlement in the conflict between Ethiopia and Somalia that would permit them to retain an important influence in both countries. Alternatively they are counting on a turnaround in the war, with the Ethiopians defeating the Somalis. The Soviets have made their support for Ethiopia much more explicit and obvious in the course of recent months, apparently because of their judgment that numbers make a very big difference. It was that judgment that
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influenced their policy in China, in India and in backing Egypt--the most crippled but also the most populous Arab country.

What is the outlook in Rhodesia--a settlement or an escalating war?

Within the next year you should have some arrangement that will move Ian Smith and the white Government out in favor of something that looks reasonably like majority rule. In the relatively medium term, there's no prospect that a white Government can survive. That doesn't spring so much from the immediate situation in Rhodesia as it does from the attitude of the world at large. The Smith Government--or one like it--could survive almost indefinitely in Rhodesia if it had the support of the outside world, but it doesn't.

How will a take-over by the black majority in Rhodesia affect South Africa?

There will be little immediate effect if you're thinking of increased strength of black nationalism. In fact, there
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may be an improvement from the point of view of the South African Government. If Rhodesia is to be viable, it will need South African help--access to the transportation system and a variety of other things. That could well lead to a new opportunity for the kind of policy Vorster was trying to pursue earlier--the opening to the north to develop more-normal relationships with black-African states.

Ultimately, of course, you have to look at this in terms of the march of history. Here's another white bastion falling in Rhodesia. Now what happens in South Africa?

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